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AIRPORT COMMISSION:

Concession Audit of Lori's Diner

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AIRPORT COMMISSION:

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DIVISION



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CITY AND COUNTY OF SAN FRANCISCO

**OFFICE OF THE CONTROLLER
FINANCIAL AUDITS DIVISION**

**Ed Harrington
Controller**

**Monique Zmuda
Deputy Controller**

October 14, 2005

Audit Number 05022

Airport Commission
P.O. Box 8097
San Francisco International Airport
San Francisco, CA 94128

President and Members:

The Controller's Financial Audits Division contracted with Mah and Associates, LLP to conduct an audit of Lori's Diner International, Inc. (Lori's Diner). Attached is the report prepared by Mah and Associates LLP concerning their review of Lori's Diner. Lori's Diner has an agreement with the Airport Commission of the City and County of San Francisco (Commission) to operate a food and beverage facility at the San Francisco International Airport.

Reporting Period: October 1, 2001, through December 31, 2004

Rent Paid: \$62,972

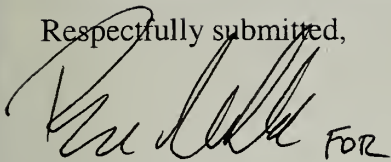
Results:

Mah and Associates, LLP found that Lori's Diner erroneously included sales taxes totaling \$58,265 in reporting gross revenues of \$1,448,634 to the Commission. Lori's Diner should have reported gross revenues of only \$1,390,369. Because of these over reported gross revenues, as well as another error for one month, Lori's Diner overpaid its rent by \$6,194.

The independent auditors also found that Lori's Diner was late in submitting its rent payments to the Commission for 12 months of the audit period, and Lori's Diner owes the Airport late payment penalties of \$596. In addition, the independent auditors identified some weaknesses in Lori's Diner's procedures for reporting its gross revenues. Finally, the independent auditors found that the Commission staff should date stamp the monthly statements upon receipt from the tenants, and Commission staff should review annual reports submitted by the tenants to ensure they are complete and timely, and properly certified by the tenant.

The responses from the Commission staff and Lori's Diner are attached to this report. The Controller's Financial Audits Division will be working with the Commission to monitor the status of the recommendations made in this report.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Noriaki Hirasuna", followed by the word "FOR" in a smaller, handwritten font.

Noriaki Hirasuna
Director

cc: Mayor
Board of Supervisors
Civil Grand Jury
Public Library



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LORI'S DINER INTERNATIONAL, INC.

INDEPENDENT ACCOUNTANTS' REPORT ON
AGREED-UPON PROCEDURES OF
THE ACCURACY OF REPORTED GROSS REVENUES AND RENT



LORI'S DINER INTERNATIONAL, INC.
REPORT ON AGREED-UPON PROCEDURES
OF THE ACCURACY OF REPORTED GROSS REVENUES AND RENT
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**INDEPENDENT ACCOUNTANTS' REPORT
ON APPLYING AGREED-UPON PROCEDURES**

City Services Auditor Division
City & County of SF Controller's Office
San Francisco, CA 94102

To the Controller:

We have performed the procedures enumerated below, which were agreed to by Lori's Diner International, Inc. (Lori's Diner), Airport Commission of the City and County of San Francisco (Airport), and the City Services Auditor Division, City and County of San Francisco Controller's Office ("City"), solely to assist you as follows:

- a. Determine that the San Francisco International Airport Monthly Statements of Sales and Rent Due (Statement[s]) of Lori's Diner, prepared in accordance with the criteria specified in the Lease Agreement (Agreement), for the audit period from October 1, 2001 through December 31, 2004 were reported in accordance with lease provisions, and that such amounts agree with underlying accounting records;
- b. Identify and report the amount and cause of any significant error (over or under) in the Statement of Lori's Diner for the audit period from October 1, 2001 through December 31, 2004, together with the impact on rent payable to the Airport;
- c. Identify and report any recommendations to improve record keeping and reporting processes of Lori's Diner relative to its ability to comply with lease provisions for the audit period from October 1, 2001 through December 31, 2004.

The management of Lori's Diner is fully responsible for the Statements. This agreed-upon procedures engagement was conducted in accordance with the attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below, either for the purpose for which this report has been requested or for any other purpose.

Unless otherwise indicated, the following conventions have been adopted in presenting our procedures and findings:

- The word "observed", "inspected", "compared", "traced", "vouched", or "agreed" means observed, inspected, compared, traced, vouched, or agreed and found to be in agreement unless otherwise noted. Such amounts and percentages are deemed to be in agreement if differences are attributable to rounding.

- The word “recalculated” means recalculated to determine mathematical accuracy and found the amount to be in agreement, unless otherwise noted. Such recalculated amounts and percentages are deemed to be in agreement if differences are attributable to rounding.
- The word “immaterial” means any amount that is below \$1,714, which is 5% of the Minimum Annual Guarantee (MAG), either individually or in the aggregate.

Description and Procedures:

1. With respect to Internal Control (*Lease Agreement, Section 4.6*):

We physically observed the internal control of Lori’s Diner at the Airport location, Terminal 1 to determine if an actual cash register was in place and if Lori’s Diner had alternative methods of ordering food without the use of the cash register. There were three cameras on the ceiling over the counter to monitor the cash register area. There were two cash register terminals and each of them used their own order number. Two of our staff purchased lunch, one using cash and the other using a credit card. When the staff ordered the food, the cashier input the order into the cash register and a print out of the order was handed to the food assistant in order to prepare the order. Another print out of the order was generated by the cash register showing the total amount of sales and the order number upon payment of the order. When the food was ready, the food assistant called the order number. The staff showed their receipts to the food assistant in order to take their food. We noted no exception.

2. With respect to Total Gross Revenues & Rent reported and paid:

A. We traced and agreed all the monthly Statements prepared and submitted by Lori’s Diner to the Airport (*Lease Agreement, Section 4.3*) for the period from October 1, 2001 through December 31, 2004 to the invoices and FAMIS report of the Airport Accounting system. We noted the following exceptions:

- For the month of September 2004, the fees due to the Airport were over-reported by \$1,205.60. See **Appendix A**.
- For the months of October 2002 and August 2004, the beginning balances of gross revenues were off by \$20 and \$66,841.70, respectively, as submitted by Lori’s Diner. However, the monthly gross revenues and rent due were correctly reported for both months.

Recommendation to Lori’s Diner: Although the rent payments were not affected by the above exception, we recommend that Lori’s Diner perform a detail review of the monthly Statements being submitted to the Airport for its accuracy and compare beginning balances of each month being

reported on the monthly Statements to the ending balances of the prior month Statement that was submitted to the Airport.

Lori's Diner's Response: Lori's Diner will submit a detailed review of monthly Statements to the Airport and will identify and report the beginning balances of each month to the ending balances of the prior month. See **Appendix C**.

- For the months of November 2001 and December 2004, the monthly Statement had no authorized signatures and was not properly dated; however, the monthly gross revenues and rent due were correctly reported for both months.

Recommendation to Lori's Diner: We recommend that Lori's Diner assign an individual with authority, such as the CFO, to review the accuracy of the Statements that are being submitted to the Airport and to ascertain that the Statements are properly signed and dated by the individual preparing the Statements.

Lori's Diner's Response: Lori's Diner will prepare accurate statements, have them reviewed by our Controller for accuracy, and will be submitted, signed and dated by the individual who is preparing the statements. In addition, we are no longer using handwritten forms for the "Statement of Sales and % Rent Due". See **Appendix C**.

- B. We recalculated all the monthly fees and rental due reported on the monthly Statements submitted to the Airport (*Lease Agreement, Section 4.1, and Major Lease Term Summary, "Base Rent", Section 4*) for the period from October 1, 2001 through December 31, 2004. We noted exceptions. Lori's Diner had included the sales tax when reporting the gross sales of certain months (1 month in 2002, 12 months in 2003 and 6 months in 2004), which generated over-reported fees and rental due for those months. See **Appendix A**.

In addition, we compared and agreed the recalculated gross sales, fees, and rental due for the period from October 1, 2001 through December 31, 2004 with the report provided by the airport showing the adjusted gross sales. We noted no exception.

- C. We compared the monthly MAG reported on the Statements to the monthly fees received on the Airport (*Lease Agreement, Major Lease Term Summary, "Minimum Annual Guarantee", Section 4*) accounting FAMIS report for the period from October 2001 through December 31, 2004. We noted no exception.
- D. We randomly selected 1 month for each year ended December 31, 2001, 2002 and 2003, respectively, and 2 months for the year ending December 31, 2004. We traced and agreed the gross revenues reported on the monthly Statement to the General Ledger (GL) of Lori's Diner. In addition, we vouched and agreed the

gross revenues to its Sales Total Report, which shows the daily gross sales by various sales types, including cash, credit card and voucher sales (*Lease Agreement, Section 4.7*). In addition to immaterial amounts, we also noted the following exception:

- There was a discrepancy between the amount reported in the GL and Statement for the month of April 2004; the amount of gross sales recorded in the GL was \$2,740.70 less than the amount reported on the monthly Statement submitted to the Airport.

Recommendation to Lori's Diner: We recommend that all supporting documents be agreed with the GL and identify any discrepancy for prompt correction. In addition, we recommend, that before the submission of the monthly Statements to the Airport, that an authorized individual traced the accuracy of the amounts being reported to the Airport as compared to GL.

Lori's Diner's Response: All supporting documents will be compared with the GL and the discrepancies will be identified and corrected. See **Appendix C**.

- E. We inspected the payment dates of MAG and Rent Due for the period from October 1, 2001 through December 31, 2004 to determine if it is in compliance with the terms of the Agreement (*Lease Agreement, Section 4.3*) by tracing to the FAMIS report showing the actual payment date of the fees by Lori's Diner. We noted the following exception:

- For the period from January 1, 2002 through December 31, 2004, a total of \$595.90 late payment penalty was calculated based on the terms of the Agreement. See **Appendix B**.

In addition, we inspected the timeliness of the submission of the monthly Statements to the Airport (*Lease Agreement, Section 4.4*). We used the payment date as the date of receipt of the monthly Statements because the Airport did not stamp the date the Statements were received from Lori's Diner. Since the Statements indicated that the payments be remitted with the report, it implied that the Statements were sent together with the corresponding payments. We noted the following exception:

- For the period from January 1, 2002 through December 31, 2004, since there were late payments, it also implied that there were late submissions of the Statements, which may be subject to \$100/day penalty according to the terms of the Agreement (*Lease Agreement, Section 15.8*).

Recommendation to the Airport: We recommend that the Airport stamp date the monthly Statements upon receipt as an added control. This control will not only serve as proof of the timely receipt of the Statements but also

prevent any miscalculation of penalties in the event that there are delays in the processing of the payments by the Airport for any unforeseen reasons.

Airport's response: We will stamp date the Sales Report upon receipt. See **Appendix D**.

F. We inspected the Accounts Receivable Ledger of the Airport for the period from October 1, 2001 through December 31, 2004 to determine if there are any outstanding balances from Lori's Diner in behalf of the Rent Due (*Lease Agreement, Section 4.3*). We noted no exception.

3. With respect to the Daily Sales Report (*Lease Agreement, Section 4.6 and 4.7*):

A. We judgmentally selected 4 days, including one lowest day of sales, from the sample month tested in item # **2D** above. We vouched and agreed the totals from the daily sales reports to the Daily Sales Summary Report, the cash register tapes, the credit card receipts, the cash deposit slips, and the copies of voucher sales and inspected that non-resetting transaction are sequential for the period from October 1, 2001 through December 31, 2004. In addition to immaterial amounts, we also noted the following exception:

- Except for the month of December 2004, actual copies of the airline vouchers were not available or located by Lori's Diner.

Recommendation to Lori's Diner: We recommend that Lori's Diner properly file and maintain all supporting documents for its accounting records for a length of time. Please refer to record retention guidelines for proper holding period of specific records.

Lori's Diner's Response: Lori's Diner will properly file and maintain all supporting documents for its accounting records in compliance with the retention guidelines. See **Appendix C**.

4. With respect to the Annual Report Submitted to the Airport (*Lease Agreement, Section 4.5 and 15.8*).

A. We inspected the Annual Reports (Report[s]) certified by either a Certified Public Accountant or CFO of Lori's Diner for the lease years ended December 31, 2001, 2002, 2003 and 2004. We noted the following exceptions:

- The Report for the lease year ended December 31, 2004 was not in comparative format as prescribed by the Form.
- The Report for the lease year ended December 31, 2002 was the only report signed by the CFO while another individual signed the other years and there was no indication of level of authority.

- The Reports for the lease years ended 2001, 2002, and 2003 were not submitted in a timely manner.

Recommendation to the Airport: We recommend that Annual reports be properly reviewed for its certification, accuracy, completeness and timeliness of filing by the Airport.

Airport's response: Review in coordination with Revenue Development the annual reports for accuracy, completeness, certification, and timeliness. See **Appendix D**.

Recommendation to the Lori's Diner: In addition, we recommend that the CFO of Lori's Diner be the individual to review the accuracy and completeness of the Report, sign the Report, properly certify the Report, and file the Report in a timely manner.

Lori's Diner's Response: Our CPA will review the annual reports for accuracy and completeness. The CPA will also sign and certify the reports and file it with the Airport in a timely manner. See **Appendix C**.

* * * * *

We were not engaged to, and did not, conduct an audit in accordance with Auditing Standards Generally Accepted in the United States or review in accordance with the Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants, the objective of which would be the expression of an opinion or limited assurance, on the Statements. Accordingly, we do not express such an opinion or limited assurance. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of Lori's Diner, Airport Commission of the City and County of San Francisco and the City Services Auditor Division, City and County of San Francisco Controller's Office, and is not intended to be and should not be used by anyone other than these specified parties.

Mah & Associates, LLP

San Francisco, California
August 02, 2005

APPENDIX A

Gross Revenues, Fees and Rental Due

October 1, 2001 through December 31, 2004

Month/Year	Gross Sales		Variance Over (Under)	Ref.	Total Fees		Variance Over (Under)	Ref.	Rental Due, net of MAG		Variance Over (Under)	Ref.
	Per Lori's Diner	Per M&A			Per Lori's Diner & Rec'd by Airport	Per M&A			Per Lori's Diner & Rec'd by Airport	Per M&A		
YEAR 2001												
Oct-01	110,177.63	110,177.63	-		8,814.21	8,814.21	-		5,957.54	5,957.54	-	
Nov-01	103,754.58	103,754.58	-		9,317.26	9,317.26	-		6,460.59	6,460.59	-	
Dec-01	142,179.12	142,179.12	-		14,217.96	14,217.96	-		11,361.29	11,361.29	-	
Subtotal 2001	356,111.33	356,111.33	-		32,349.43	32,349.43	-		23,779.42	23,779.42	-	
YEAR 2002												
Jan-02	124,302.56	124,302.56	-		7,458.15	7,458.15	-		4,601.48	4,601.48	-	
Feb-02	95,605.15	95,605.15	-		5,736.30	5,736.30	-		2,879.63	2,879.63	-	
Mar-02	116,805.20	116,805.20	-		7,008.31	7,008.31	-		4,151.64	4,151.64	-	
Apr-02	109,843.40	109,843.40	-		6,590.60	6,590.60	-		3,733.93	3,733.93	-	
May-02	111,598.52	111,598.52	-		6,695.91	6,695.91	-		3,839.24	3,839.24	-	
Jun-02	125,015.39	125,015.39	-		7,500.92	7,500.92	-		4,644.25	4,644.25	-	
Jul-02	126,868.76	126,868.76	-		7,612.13	7,612.13	-		4,755.46	4,755.46	-	
Aug-02	131,426.58	131,426.58	-		7,885.59	7,885.59	-		5,028.92	5,028.92	-	
Sep-02	108,781.76	108,781.76	-		7,531.85	7,531.85	-		4,675.18	4,675.18	-	
Oct-02	104,895.97	104,895.97	-		8,391.68	8,391.68	-		5,535.01	5,535.01	-	
Nov-02	109,500.51	109,500.51	-	2 B	8,760.04	8,760.04	-		5,903.37	5,903.37	-	
Dec-02	162,161.69	149,802.95	12,358.74	2 B	12,972.94	11,984.24	988.70	2 B	10,116.27	9,127.57	988.70	2 B
Subtotal 2002	1,426,805.49	1,414,446.75	12,358.74		94,144.42	93,155.72	988.70		59,864.38	58,875.68	988.70	
YEAR 2003												
Jan-03	138,792.76	128,215.02	10,577.74	2 B	8,327.57	7,692.90	634.67	2 B	5,470.90	4,836.23	634.67	2 B
Feb-03	103,306.43	95,433.19	7,873.24		6,198.39	5,725.99	472.40		3,341.72	2,869.32	472.40	
Mar-03	111,845.35	103,321.34	8,524.01		6,710.72	6,199.28	511.44		3,854.05	3,342.61	511.44	
Apr-03	96,211.98	88,879.43	7,332.55		5,372.71	5,332.77	439.94		2,916.04	2,476.10	439.94	
May-03	102,308.77	94,511.57	7,797.20		6,138.52	5,670.69	467.83		3,281.85	2,814.02	467.83	
Jun-03	126,727.83	117,069.59	9,658.24		7,603.66	7,024.18	579.48		4,746.99	4,167.51	579.48	
Jul-03	141,227.21	130,463.94	10,763.27		8,473.63	7,827.84	645.79		5,616.96	4,971.17	645.79	
Aug-03	141,372.24	130,597.91	10,774.33		8,482.33	7,835.87	646.46		5,625.66	4,979.20	646.46	
Sep-03	114,596.21	105,862.55	8,733.66		9,167.63	6,351.75	2,815.94		3,495.08	3,495.08	2,815.94	
Oct-03	112,791.02	104,194.94	8,596.08		9,023.28	8,222.69	800.59		6,166.61	5,366.02	800.59	
Nov-03	112,370.40	103,806.37	8,564.03		8,989.63	8,304.51	685.12		6,132.96	5,447.84	685.12	
Dec-03	134,062.00	123,844.80	10,217.20		10,724.96	9,907.58	817.38		7,868.29	7,050.91	817.38	
Subtotal 2003	1,435,612.20	1,326,200.65	109,411.55		95,613.09	86,096.05	9,517.04		61,333.05	51,816.01	9,517.04	
YEAR 2004												
Jan-04	128,158.17	118,390.92	9,767.25	2 B	7,689.49	7,103.46	586.03	2 B	4,832.82	4,246.79	586.03	2 B
Feb-04	100,754.01	93,075.30	7,678.71		6,045.24	5,584.52	460.72		3,188.57	2,727.85	460.72	
Mar-04	115,869.51	107,038.81	8,830.70		6,952.17	6,422.33	529.84		4,095.50	3,565.66	529.84	
Apr-04	112,536.55	112,536.55	-		6,752.19	6,752.19	-		3,895.52	3,895.52	-	
May-04	122,338.05	113,014.36	9,323.69	2 B	7,340.28	6,780.86	559.42	2 B	4,483.61	3,924.19	559.42	2 B
Jun-04	149,249.22	137,874.57	11,374.65		10,447.44	8,272.47	2,174.97		7,590.77	5,415.80	2,174.97	
Jul-04	148,138.64	136,848.63	11,290.01		8,888.31	8,210.92	677.39		6,031.64	5,354.25	677.39	
Aug-04	129,516.96	129,516.96	-		7,771.02	7,771.02	-		4,914.35	4,914.35	-	
Sep-04	109,749.92	109,749.92	-		8,779.99	7,574.39	1,205.60	2 A	5,923.32	4,717.72	1,205.60	2 A
Oct-04	110,305.44	110,305.44	-		8,824.44	8,824.44	-		5,967.77	5,967.77	-	
Nov-04	98,362.70	98,362.70	-		7,869.02	7,869.02	-		5,012.35	5,012.35	-	
Dec-04	123,654.84	123,654.84	-		9,892.39	9,892.39	-		7,035.72	7,035.72	-	
Subtotal 2004	1,448,634.01	1,390,369.00	58,265.01		97,251.98	91,058.01	6,193.97		62,971.94	56,777.97	6,193.97	

Appendix B Late Payment Penalty

<u>Month</u>	<u>MAG Amount Due</u>	<u>B</u> Days		<u>C</u> Monthly Interest Rate	<u>D</u> Percentage Rent Due	<u>Due Date</u>	<u>Paid On</u>	<u>E</u> Days		<u>F</u> Monthly Interest Rate	<u>(A x (B/30) x C) + (D x (E/30) x F)</u> <u>Interest Due</u>	
		<u>Due Date</u>	<u>Lat</u>					<u>Received Date</u>	<u>Lat</u>		<u>Interest Due</u>	
May-02	\$ 2,856.67	5/1/2002	1	1.5%	\$ 3,839.24	6/20/2002	6/24/2002	4	1.5%	\$	9.10	
June-02	\$ 2,856.67	6/1/2002	2	1.5%						\$	2.86	
July-02	\$ 2,856.67	7/1/2002	7	1.5%	\$ 4,755.46	8/20/2002	8/22/2002	2	1.5%	\$	14.75	
August-02					\$ 5,028.92	9/20/2002	11/7/2002	48	1.5%	\$	120.69	
September-02					\$ 4,675.18	10/20/2002	11/7/2002	18	1.5%	\$	42.08	
October-02	\$ 2,856.67	10/1/2002	6	1.5%	\$ 5,535.01	11/20/2002	12/27/2002	37	1.5%	\$	110.97	
November-02					\$ 5,903.37	12/20/2002	12/27/2002	7	1.5%	\$	20.66	
December-02					\$ 10,116.27	1/20/2003	1/28/2003	8	1.5%	\$	40.47	
January-03					\$ 8,246.75	2/20/2003	2/27/2003	7	1.5%	\$	28.86	
March-03	\$ 2,856.67	3/1/2003	2	1.5%						\$	2.86	
May-03	\$ 2,856.67	5/1/2003	4	1.5%	\$ 1,724.38	6/20/2003	6/23/2003	3	1.5%	\$	8.30	
June-03	\$ 2,856.67	6/1/2003	1	1.5%						\$	1.43	
November-03					\$ 6,132.96	12/20/2003	1/16/2004	27	1.5%	\$	82.79	
October-04	\$ 2,856.67	10/1/2004	3	1.5%						\$	4.29	
November-04					\$ 502.80	12/20/2004	1/4/2005	15	1.5%	\$	3.77	
December-04					\$ 7,035.72	1/20/2005	2/18/2005	29	1.5%	\$	102.02	
Total Interest											\$	595.90
												2 E



Lori's Diner International Inc.

500 Sutter Street, Ste. 708, San Francisco, CA 94102

Tel (415) 981-1951 ♦ Fax: (415) 981-1952

City Services Auditor Division
City & County of SF Controller's Office
San Francisco, CA 94102

September 23, 2005

Dear Mr. Luk Yuen,

In response to your report on Applying Agreed-Upon Procedures of the accuracy of reported gross revenues and rent, Lori's Diner Int'l Inc. (hereafter Lori's Diner) will do the following:

1. Lori's Diner will submit a detailed review of monthly statements to Airport, will identify and report the beginning balances of each month to the ending balances of the prior month.
2. Lori's Diner will prepare accurate statements, have them reviewed by our controller for accuracy, and will be submitted, signed and dated by the individual who is preparing the statements. In addition, we are no longer using handwritten forms for the Statement of Sales and % Rent Due.
3. All supporting documents will be compared with the GL and the discrepancies will be identified and corrected.
4. Lori's Diner will properly file and maintain all supporting documents for its accounting records in compliance with the retention guidelines.
5. Our CPA will review the annual reports for accuracy and completeness. The CPA will also sign and certify the reports and file it with the Airport in a timely manner.

We appreciate your recommendations prepared in the office. If there are additional comments or recommendations, please let us know.

Sincerely,

Ann Wei
Controller

Lori's Diner Int'l, Inc.



San Francisco International Airport

P.O. Box 8097
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September 19, 2005

Ms. Yolanda C. Aquino
Mah and Associates, LLP
One Embarcadero Center, Suite 711
San Francisco, CA 94111

Subject: Lori's Diner Audit report

Dear Ms. Aquino:

Thank you for your report on Lori's Diner.

We concur and would like to assure you that your recommendations will be implemented as follows:

- Date stamp Sales reports upon receipt
- Review in coordination with Revenue Development the annual reports for accuracy, completeness, certification, and timeliness.

Very truly yours,

Ben Kutnick
Finance Director

cc: B. Carlick, Controller's Audit
G. Franzella
M. McCormick
C. Sanchez
I.. Castellanos

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